

Members of Congress asked pointed questions of PCAOB Chairman James Doty on Wednesday as the hot topic of mandatory audit firm rotation was debated during a wide-ranging discussion of accounting and auditing issues in front of a House subcommittee.

Rep. Scott Garrett, R-N.J., the chairman of the House Subcommittee on Capital Markets and Government Sponsored Enterprises, opened the hearing by stating his concern that the PCAOB was overstepping its mandate by considering the issue of mandatory audit rotation.

Other subcommittee members asked whether the PCAOB has done a cost-benefit analysis on auditor rotation, and whether it plans to conduct one before issuing a standard. Regulators and business leaders—including AICPA President and CEO Barry Melancon—were among the witnesses who testified.

Doty addressed the day's most pressing issue by replying that the PCAOB merely has issued a concept release related to auditor independence, professional skepticism, and objectivity, and that mandatory auditor rotation was a topic that stakeholders were asked to consider.

"It would be putting the cart before the horse to start evaluating the costs and benefits of some form of rotation before you have the sense of whether you're going to go there and what [the format] would be," said Doty, whose board listened to two days of testimony last week from firms, business leaders, academics, and former regulators on the skepticism and objectivity issue.

Wednesday's subcommittee meeting was titled "Accounting and Auditing Oversight: Pending Proposals and Emerging Issues Confronting Regulators, Standard Setters and the Economy." Mandatory audit rotation wasn't the only issue discussed.

Witnesses had the opportunity to discuss recent rules, proposals, and guidance related to accounting and auditing as well as Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203, provisions that apply to accounting and auditing.

Speakers also had a chance to comment on a House bill (H.R. 3503) that would amend the Sarbanes-Oxley Act of 2002 (SOX) to make PCAOB disciplinary proceedings public. But audit rotation—and a legislative proposal by Rep. Michael Fitzpatrick, R-Pa., that would prohibit the PCAOB from mandating firm rotation—was the most prominent issue.

Four regulators—Doty, SEC Chief Accountant James Kroeker; FASB Chairman Leslie Seidman; and GASB Chairman Robert Attmore—spoke first at the hearing. They were followed by a group that included Melancon; University of Tennessee professor Joseph Carcello; Xerox Vice President and Chief Accounting Officer Gary Kabureck, who spoke on behalf of Financial Executives International; and Tom Quaadman, U.S. Chamber of Commerce Center for Capital Markets Competitiveness vice president.

Fitzpatrick, explaining the reason for his proposal, warned during the hearing against adding to regulations that could unnecessarily burden businesses.

“Our economy is in the slowest economic recovery since World War II,” Fitzpatrick said. “And what the American people need is for the economy to grow in the private sector and create jobs. What the people do not need is their own government getting in the way of that economic recovery and private sector job creation.”

Quaadman, whose organization is emerging as an adversary to the PCAOB on the issue, labeled the PCAOB’s consideration of rotation “mission creep.” Last week Doty sparred with Quaadman’s colleague, David Hirschmann, at the PCAOB hearings exploring the issue of audit rotation. Doty took exception to the Center for Capital Markets Competitiveness’ assertion that the PCAOB was going beyond its mandate.

But Carcello, a member of PCAOB’s Investor Advisory Group, defended the PCAOB’s consideration of the issue. He said mandatory rotation should be considered because the PCAOB continues to identify a significant number of audit deficiencies that are often related to inadequate professional skepticism.

“Exploring this issue is not only appropriate, it’s the very mission of the PCAOB,” Carcello said.

Melancon discussed the costs of mandatory audit firm rotation. He said the profession is committed to strengthening auditor independence and skepticism, and referenced SOX in

saying there are other solutions.

“Sarbanes-Oxley delegated responsibility for overseeing the hiring and firing of the external auditor to independent audit committees,” Melancon said. “We believe in the audit committee’s authority and support efforts to strengthen its role, not undermine it.”

The subcommittee explored other issues, too. Kroeker discussed the SEC’s consideration of whether to adopt IFRS for U.S. public companies; **Rep. John Campbell, R-Calif.**, spoke in favor of the more principles-based approach that would create, but wondered if moving away from a rules-based approach would lead to more litigation in the United States.

Panelists also debated the PCAOB’s request of Congress to make disciplinary procedures public. Proponents say keeping them private leads to lengthy litigation by firms with no reason to settle, but opponents say publicizing unproven charges can wrongly damage the reputation of a firm or auditor.

Doty also discussed the PCAOB’s projects on creating a new auditor’s reporting model and enhancing communication between auditors and audit committees. And regarding audit rotation, Doty made the point that other jurisdictions worldwide are proposing rotation. The European Commission in November proposed limiting engagements to six years, with some exception, for public companies.

“The question is whether there are sufficient safeguards to objectivity, skepticism, and independence,” Doty said. “One of the things you have to look at is the fact that in some cases, a company has had the same auditor for a century.”